

PRINCE EDWARD ISLAND BUSINESS DEVELOPMENT

ANNUAL REPORT 2002



Mandate

Prince Edward Island Business Development (PEIBD) leads the business development effort for the province. Its role is central and critical to government's overall objective of advancing sound business development initiatives.

Prince Edward Island Business Development provides leadership in the implementation and support of economic development and assists in the establishment and maintenance of profitable and wealth-creating businesses in Prince Edward Island. The corporation solicits and supports investment, creating jobs and wealth for Prince Edward Island; actively supports small business; encourages entrepreneurship and investment risk sharing; and actively promotes PEI as a competitive place to do business.

Prince Edward Island Business Development has the lead role in attracting new businesses and prospective business partners to the Island. As well, the corporation directs the trade development and export initiatives of the province.

103-03179/

Message of the Chief Executive Officer

Honourable Michael F. Currie
Minister of Development & Technology
PO Box 2000
Charlottetown, PEI
C1A 7N8



Dear Minister,

I respectfully submit Prince Edward Island Business Development's Annual Report for the fiscal year ending March 31, 2002.

Our Corporation experienced many significant accomplishments this past year in our efforts to advance sound business initiatives in PEI. New businesses were established, many existing companies expanded, lucrative contracts were signed in export markets and hundreds of new jobs were created for Islanders - all of which contribute to a positive economic climate for our province.

In a year that saw many setbacks for economic development across the globe, Prince Edward Island's business community has remained strong and continues to forge ahead. Much of this strength lies in our emerging industries such as aerospace, life sciences and specialty manufacturing. These sectors continue to evolve in the province and create meaningful employment for Islanders.

Furthermore, trade initiatives continue to breed success for Island firms, creating more jobs as companies respond to the strong international demand for their products.

Once again, our close working relationship with our federal government partners is a critical factor for success as, together, we endeavour to meet the needs of Island businesses.

Prince Edward Island Business Development remains committed to our role as the Island's lead development agency and staff continues to work with clients to identify opportunities and maximize PEI's development potential.

Respectfully,

R. Kent Scales
Chief Executive Officer

Board of Directors

as of March 31, 2002

Honourable Michael Currie, Chair
Paul Jelley, Co-Chair
Michael O'Brien
Martina MacDonald
Nora Dorgan

Year in Review ~ MONTHLY HIGHLIGHTS

APRIL 2001

Hustler Fibreglass Boat Ltd. officially opens in Bloomfield employing five staff members. Within a few short months, the company's order book extended well into the next year.

MAY 2001

Ten Island companies participated in a **Team Canada Atlantic trade mission to Atlanta**, Georgia, resulting in more than \$5 million in revenue over the next two years and upwards of 40 new jobs.

Minister Currie introduced the **Aerospace Scholarship and Bursary Program**. Funds contributed by the provincial government and private aerospace companies are being distributed to aerospace students over a five year period in an effort to encourage Islanders to consider a career in PEI's evolving aerospace sector.

JUNE 2001

PEIBD staff, along with their Technology PEI colleagues, initiated "**Development Mixers - Exploring Development Opportunities in Your Community**", to introduce Island communities to the various programs and services available through the department.

An extensive **Buy...PEI** summer campaign was launched to increase awareness of the food, beverages and hand-crafted products produced in Prince Edward Island.

JULY 2001

The **Craft Education Bursary Program** was introduced to provide financial support to Island students enrolled in a recognized arts/crafts program in Canada.

AUGUST 2001

Trade Team PEI hosted a pre-mission briefing and training session to prepare Island businesses for upcoming **trade missions to Boston, Ireland and New England**.

SEPTEMBER 2001

Fabco Welding Ltd. officially opened its new and expanded location in Summerside and increased its staff size to seven.

Atlantic Fish Specialties, a smokehouse operation regarded as one of the world's finest producers of smoked seafood, officially opened its expanded facilities in Charlottetown, employing up to 70 people at peak season.

OCTOBER 2001

Eleven Island companies traveled to **Dublin, Ireland for a trade mission** which resulted in revenues of over \$12.5 million over a two-year period and 26 new jobs.

Minister Currie announced **new tax incentives** at the West Prince Business Park in Bloomfield and the Pooles Corner Business Park - both were identified as "**tax-free**" zones.

PEIBD, Technology PEI and Island Investment Development Inc. **officially opened their new facility** at 94 Euston Street in Charlottetown with the goal of serving the business development needs of Island businesses and clients under one roof.

NOVEMBER 2001

Fortius Canada Inc. officially opened its new 25,000 square foot processing plant in Charlottetown. Specializing in a wide range of nutraceutical products, the company's products are sold both nationally and internationally with annual sales exceeding \$2.5 million. Over the next few years, the company will employ 25 people.

A **major expansion for Atlantic Turbines International (ATI)** was announced to accommodate the company's new license from Pratt & Whitney Canada. The expansion, over the next five years, will enable ATI to compete for additional licences in the repair and overhaul of turbofan engines and create up to 60 new jobs at its Slemmon Park facility.

DECEMBER 2001

MacDougall Steel Erectors, a locally-owned steel fabrication and erection company, expanded its operations to the community of Borden-Carleton. Its new 9,000 square-foot facility was officially opened in the Borden-Carleton Industrial Park, creating 30 full and part-time jobs.

JANUARY 2002

The **Second Annual Prince Edward Island Craft & Giftware Buyer's Market** was held at the Confederation Centre. The show not only saw an increase in exhibits and buyers this year, but direct wholesale sales reached over a quarter of a million dollars.

FEBRUARY 2002

A new 28,000 square foot greenhouse was officially opened in Spring Valley to specialize in the production of tomatoes and cucumbers. **Spring Valley Produce** will initially create three new jobs.

MARCH 2002

J. Perry Inc. of Tignish signed a lucrative deal with **Sheds USA**, which will see the company supplying gazebos to over 200 Home Depot outlets. The deal translates into an additional \$2.7 million in annual sales for the Island company and up to 40 new jobs.

Staffing Summary

- 5 Corporation Management
- 10 Client Services
- 4 Corporate Services
- 4 Marketing
- 6 New Business Development
- 5 Trade Development
- 10 Finance & Administration
- 5 Asset Management

49 Total



Bilan de l'année ~ FAITS SAILLANTS

AVRIL 2001

Hustler Fibreglass Boat Ltd., employant cinq personnes, a officiellement ouvert ses portes à Bloomfield. Après quelques mois à peine, son carnet comprenait des commandes allant bien au-delà de cette année.

MAI 2001

Dix entreprises de l'île ont participé à une **mission commerciale d'Équipe Canada atlantique à Atlanta, en Géorgie**. Celle-ci générera des revenus de plus de 5 millions de dollars au cours des 2 prochaines années et créera plus de 40 nouveaux emplois.

Le ministre Currie a lancé le **programme de bourses d'études en aérospatiale**. Les fonds pour le programme, fournis par le gouvernement provincial et des entreprises aérospatiales, sont attribués à des étudiants en aérospatiale pendant une période de cinq ans afin d'inciter les Insulaires à considérer une carrière dans cette industrie en pleine effervescence de l'île.

JUIN 2001

Le personnel de EAÎPÉ, en collaboration avec ses collègues de Technologie Î.-P.-É., a lancé **Development Mixers-Exploring Development Opportunities in Your Community** dans le but de présenter aux collectivités insulaires les différents programmes et services offerts par le ministère.

La campagne estivale de grande envergure **Buy...PEI** a été lancée afin de sensibiliser davantage les gens aux aliments, breuvages et produits artisanaux de l'Île-du-Prince-Édouard.

JUILLET 2001

Le **programme de bourses d'études en artisanat de l'île** a été lancé afin de fournir une aide financière aux étudiants de l'île inscrits à un programme canadien reconnu en arts ou en artisanat.

AOÛT 2001

Équipe Commerce Î.-P.-É. a tenu une séance d'information et de formation pour préparer les entreprises insulaires aux **missions prochaines à Boston, en Irlande et en Nouvelle-Angleterre**.

SEPTEMBRE 2001

Fabco Welding Ltd. a inauguré ses nouvelles installations de Summerside, désormais plus spacieuses. Son personnel a lui aussi augmenté, passant à sept employés.

Atlantic Fish Specialties, saurisserie considérée comme l'un des meilleurs producteurs de poisson et fruits de mer fumés au monde, a procédé à l'ouverture officielle de ses installations agrandies, à Charlottetown. En saison forte, l'entreprise emploie jusqu'à 70 personnes.

OCTOBRE 2001

Onze entreprises insulaires se sont rendues à **Dublin, en Irlande, pour une mission commerciale**. Celle-ci générera des revenus de plus de 12,5 millions de dollars au cours des 2 prochaines années et créera 26 nouveaux emplois.

Le ministre Currie a annoncé la création d'incitatifs fiscaux pour les parcs commerciaux West Prince Business Park, à Bloomfield, et Pooles Corner Business Park, tous deux devenus **zones franches**.

EAÎPÉ, Technologie Î.-P.-É. et Island Investment Development Inc. ont **inauguré leurs nouvelles installations**, au 94, rue Euston, à Charlottetown, visant à satisfaire aux besoins en développement commercial des entreprises et clients insulaires, le tout sous un même toit.

NOVEMBRE 2001

Fortius Canada Inc. a officiellement ouvert, à Charlottetown, sa nouvelle usine de transformation de 2 300 mètres carrés (25 000 pieds carrés). Spécialisée dans une vaste gamme de produits nutraceutiques, l'entreprise vend ses produits à l'échelle nationale et internationale. Ses ventes annuelles sont supérieures à 2,5 millions de dollars. Au cours des prochaines années, l'entreprise compte employer 25 personnes.

On a annoncé l'agrandissement considérable des installations d'**Atlantic Turbines International (ATI)**. Celles-ci permettront de répondre à la demande que lui impose la nouvelle licence concédée par Pratt & Whitney Canada. Les travaux d'agrandissement, prévus au cours des 5 prochaines années, lui permettront également d'essayer d'obtenir d'autres licences visant la réparation et la révision de moteurs à turbine et de créer 60 nouveaux emplois à l'usine de Slemmon Park.

DÉCEMBRE 2001

MacDougall Steel Erectors, une entreprise locale de fabrication et d'installation de pièces d'acier, a élargi ses opérations grâce à une nouvelle usine dans la collectivité de Borden-Charleton. Sa nouvelle installation de 830 mètres carrés (9 000 pieds carrés), qui a officiellement ouvert ses portes, est située dans le parc industriel de Borden-Charleton. Elle permettra de créer 30 emplois à temps plein et à temps partiel.

JANVIER 2002

Le **deuxième rendez-vous annuel Prince Edward Island Craft & Giftware Buyer's Market** a eu lieu au Centre de la Confédération. On a non seulement remarqué un nombre accru d'exposants et d'acheteurs, mais les ventes en gros directes ont aussi atteint plus de 250 000 \$.

FÉVRIER 2002

À Spring Valley, on a officiellement ouvert les portes d'une serre de 2 600 mètres carrés (28 000 pieds carrés). **Spring Valley Produce** se spécialise dans la production de tomates et de concombres, et trois nouveaux emplois seront initialement créés.

MARS 2002

J. Perry Inc., de Tignish, a signé un contrat lucratif avec Sheds USA. L'entreprise fournira en effet des kiosques de jardin à plus de 200 points de vente Home Depot. Le contrat se traduit par des ventes annuelles supplémentaires de 2,7 millions et plus de 40 nouveaux emplois pour l'entreprise insulaire.

La dotation du personnel en bref

- 5 Gestion de société
- 10 Services à la clientèle
- 4 Services de l'entreprise
- 4 Marketing
- 6 Développement de nouvelles entreprises
- 5 Développement du commerce
- 10 Finance et administration
- 5 Gestion de l'actif

49 Total

CLIENT SERVICES DIVISION

Brian Keefe, *Director*

The Client Services Division coordinates and delivers information and assistance to new and existing businesses in Prince Edward Island. Specifically, the group provides counselling, financial assistance, business guidance, entrepreneur education and management development to assist businesses with start-up, expansion and diversification that supports the long-term viability of Island companies.

The Division continues to provide cost-shared financial assistance for new business start-ups and growth through a variety of capital, marketing and lending programs:

Since its inception, the **Entrepreneur Loan Program** has provided new and expanding business in PEI with 671 loan guarantees up to \$25,000 on loans sourced through participating financial institutions. This past year, 42 companies were assisted through loan guarantees totalling \$933,000. Ninety-six jobs were created bringing an estimated program total to date of 1144 jobs.

The Division delivers the **Small Business Employee Support Program** (SBESP) under the Federal/Provincial Labour Market Development Agreement. The goal of the program was to employ 250 EI-eligible individuals within the manufacturing, processing and information technology sectors of PEI. During the life of the contract, two new initiatives were added - the **Marketing Employee Support Program** (MESP) and the **Information Technology (IT) Internship Program**. The SBESP Program, the MESP and the IT Internship Program placed 415 individuals into the workforce. Of these placements, 381 participants have completed their work terms and were still employed three months later.

PEIBD was contracted through the Small Business Employee Support Program to deliver a financial subsidy program referred to as the **Farm Worker Program**. As a result of this initiative, 614 individuals were contracted out to their previous employers or to non-profit organizations. This was implemented from March to November of 2001.

The **Self-Employment Benefit** provides eligible individuals with financial support, planning assistance and mentoring while they get their businesses up and running. Thirty-two new company start ups were initiated under this program.

Information Technology is one of several targeted sectors with excellent growth potential. The Division delivers two new programs on behalf of Technology PEI targeted at this sector:

The **Information Technology Planning Program** and the **Information Technology Implementation Program** are designed to assist small businesses in acquiring advisory support to assess and implement appropriate technologies, solutions and strategies to increase their productivity, competitiveness and profitability.

In an effort to **revitalize the Island's Craft & Giftware industry** and to increase business and market development in the sector, the Division has executed several activities for the craft and giftware industry:

The **Winter Financing Program** was introduced providing producers with the ability to manufacture more product during the off-season.

The **Crafts Education Awards Program** provides financial support to Island students pursuing career training at recognized craft and design schools in Canada.

A **six-part craft training program** was delivered to the industry throughout the past fiscal year in conjunction with the Tourism Industry Association of PEI (TIAPEI).

The **Craft and Giftware Buyers Market** provided a wholesale sales opportunity for 65 Island craft companies in January 2002 with sales surpassing a quarter of a million dollars.

The **Arts and Crafts Directory** was developed and features over 140 participants showcasing the Island's craft producers.



CORPORATE SERVICES

Neil Stewart, *Director*

The Corporate Services Division was established in October 2001 to manage PEIBD's preferred share, loan and loan guarantee portfolios. The Division also manages Island Products Holding Inc., a wholly owned subsidiary of PEIBD which provides alternative inventory financing. While the portfolio size fluctuates, Corporate Services manages an average of \$30 million in financial assets and liabilities.

One objective of the Division is to provide lending alternatives where the risk is above the acceptable level of conventional lenders, but is offset by a high economic return to the Province. Corporate Services strives to leverage the participation of lenders by being the catalyst which enables the business to obtain further financing. The Division assisted over 100 clients during the year and a few examples which yielded particularly excellent returns are:

A \$25,000 loan guarantee was provided to a start-up business producing a product which was previously only available from off-island suppliers. This support helped the business obtain over \$100,000 of additional financing. Nine months after start-up, the company was able to fund its working capital requirements without PEIBD's guarantee. **The company now employs four full-time employees.**

\$350,000 in financing was provided as **part of a \$1 million expansion.** The company subsequently repaid the financing and the expansion has **created over 50 sustainable full-time positions.**

A manufacturing company was granted over \$400,000 in various forms of financing over a three-year period to assist with working capital and expansion financing. The assistance enabled the company to maintain its existing product lines and repay PEIBD. The company recently **launched a new product line and also constructed a new manufacturing facility** financed by conventional lenders and private equity, **creating five full-time sustainable positions.**

Corporate Services actively manages PEIBD's existing loans, guarantees and investments to maximize return to the Province on these investments. Since its inception, the Division has been successful in collecting or returning to current status many of PEIBD's investments.

Staff includes a Chartered Accountant (CA), a banker with 15 years experience and a CA finalist. In addition to providing loans, guarantees and investments, Corporate Services assists clients in determining their financing requirements and locating providers of this financing.

MARKETING DIVISION

Brad Mix, *Director*

The Marketing Division provides marketing support to Prince Edward Island-based companies with the goal of increasing their out-of-province sales. With this mandate in mind, the Marketing Division has executed such initiatives as:

With the support of the Culinary Institute and the PEI Food Technology Centre, PEIBD is working with specific clients to **develop value-added food products for distribution into retail and food service markets.** This initiative has the potential to create substantial economic benefit to the province through the utilization of extra capacity in processing facilities, added employment and an increased demand and value for commodity-based products. To date, PEIBD is working with six private sector companies to expand their product lines.

The division is working with several food processors to **develop new markets for their products.** This is being accomplished through presence at trade shows and incoming buyer/broker missions.

PEIBD has partnered with Atlantic Canada Opportunities Agency (ACOA) and municipal governments to promote PEI as an investment location. **Invest PEI** will be the main investment promotion vehicle for the Island. The group has developed an investment brochure, brand image, trade show booth, web site and undertaken investment missions to Boston and New Jersey.



The Marketing Division is also responsible for promoting PEIBD, its programs and services within the Province. Specific initiatives this fiscal year included an Open House at the new 94 Euston Street location as well as presentations to industry associations and municipal governments.

Over the next year, the Division will concentrate on the growth of the food industry, identify opportunities for contract manufacturing, initiate market events for specialty wood producers and develop initiatives to promote the business parks within the Province.



DIVISIONAL REPORTS

NEW BUSINESS DEVELOPMENT

Alex Rogers, *Director*

In an effort to better focus all of PEIBD's prospecting initiatives, the New Business Development Division was formed in October 2001. This division encompasses the former aerospace, food and life sciences divisions. Specialty manufacturing is also a priority sector for this division.

PEIBD believes a collective team approach to recruiting investment to the province will best serve Prince Edward Island's development needs. This past year divisional projects included:

- Life Sciences Investment Missions to Boston and New Jersey
- Working with National Research Council (NRC), ACOA and the private research community to develop a cluster of research activity with the aim of establishing a "NRC Centre of Excellence" relative to bioresource research in the Atlantic Region.
- Examining development opportunities for further beef processing and ethanol production in Prince Edward Island in cooperation with the Provincial Department of Agriculture and Forestry.

Specific business highlights included:

- Wiebel Aerospace (1995) Ltd.** constructed a plant to allow for the expansion of its precision machine shop. This increased staff from 20 to 30 full-time people.
- CAE**, the world's largest flight simulator company, opened a software engineering unit this past year in Slemmon Park creating 15 software engineering jobs.
- Atlantic Turbines Inc.** (ATI) completed construction on a new \$6.1 million test cell which will allow the company to repair and overhaul the new turbo fan engine line, the JT15D. It is expected the new engine line will employ 60 new people.
- Quality Thermoform & Packaging Co. Ltd.**, an Ontario-based company, announced plans to establish a plastic packaging operation in Borden-Carleton employing 20 people initially, with staff size increasing to 44 by year three.
- A world leader in helicopter repair and overhaul, **Helipro Airframe Group**, announced plans to establish a repair and overhaul facility in Slemmon Park. The facility is expected to employ 104 people.

TRADE & EXPORT DEVELOPMENT

Stephen Murray, *Director*

The primary focus of PEIBD's Trade & Export Development Division is to assist Prince Edward Island companies in becoming export-ready, thereby increasing revenues generated from export sales. In the 2001/2002 fiscal year, the division provided assistance for over 100 activities to assist Island companies to develop or expand their export business.

The division also puts considerable emphasis on growing and strengthening Trade Team PEI which brings together federal and provincial departments and agencies interested in trade development. This past year, Trade Team PEI organized and sponsored several trade-related events including six training activities for first-time exporters.

Trade missions to lucrative markets are a key component of building trade for Island companies. Mission highlights of the past fiscal year saw critical contacts being made which will lead to more work and more jobs for Island companies:

New England and Prince Edward Island have a trading history that dates back more than 250 years. The strong ties we have built with this region continue today, with New England perhaps being our closest trading partner. In 2001/2002 there were two missions to New England with 20 companies participating in total. Reported sales from these events are estimated at \$1.75 million.

Southeastern United States has shown to be a very promising market for Island companies. In partnership with Team Canada Atlantic, there have been two missions to the Atlanta, Georgia area with Island companies reporting anticipated sales within the next two years of \$11 million.

Chile is another growth market for Island companies - particularly in the aquaculture, metal fabrication, tourism education and marine research industries. In 2002, six companies visited potential clients in Santiago, the nation's capital and Puerto Montt in southern Chile. Expected sales within 12 months of this mission are estimated at \$2 million. A Memorandum of Understanding has been signed between Prince Edward Island and the X Region (Tenth Region) of Chile for further development in these sectors.

Ireland is a market well suited to Prince Edward Island companies. Trade Team PEI's premier mission to Ireland was a resounding success. Survey results from the 11 Island companies who travelled to Ireland in October 2001 show expected results over the next two years to reach \$12.5 million in sales and create 26 jobs.

Hong Kong was the destination for a seafood trade mission with five Island companies in attendance. This is a market with vast potential for Prince Edward Island seafood companies and anticipated revenues over the next two years are estimated at \$1.4 million.

Export-readiness and training for export planning helped many companies prepare to enter new markets this year. The Export Series for Success training program provided an introduction to several key export-related topics including financing, marketing, research, logistics and government services. The series is being expanded and re-offered for 2002-2003.

DIVISIONAL REPORTS

ASSET MANAGEMENT DIVISION

Doug McNeil, *General Manager*

The Asset Management Division is responsible for the efficient administration and strategic development of real property investment assets owned or controlled by PEI Business Development in addition to providing a technical service to the Ministry. The property portfolio includes mature business parks at West Royalty and Summerside, new business parks at Bloomfield and Poole's Corner, the Food Park in Souris and Gateway Village, the region's premier tourism and retail Park.

A priority for 2001-2002 was to work towards a more efficient park management system, improving and modernizing the existing older parks and developing newer parks in Prince and King's counties. The Division through its Crown Corporation, Environmental Industrial Services Inc. (EISI), instigated improved infrastructure in the parks by providing a waste treatment plant in Bloomfield, completing a water and waste treatment plant in Lakeside at Crowbush for the new Rodd Crowbush Resort and working with clients at other EISI owned plants throughout the province to ensure safety and high environmental standards.

The Division has constructed a new call centre facility in Bloomfield and provided construction management services to the construction of the new \$22 million Atlantic Technology Centre in Charlottetown.

Project management services to the ministry is ongoing and includes the completion of the new Interpretive Centre and Golf course in Murray River as well as ongoing work with the Community Development Bureau division of the Ministry to help develop initiatives in the Cardigan area.

The Division is advancing the further development of the strategic Mill River complex in an effort to package the premier existing facilities in the area including the Leisure Village Complex property held by PEI Business Development.

The division continues to enhance the strategic development value of the property portfolio. The Asset Management Division continually liquidates mature properties to private sector investors and re-invests in new projects designed to attract wealth-creating investment to Prince Edward Island.



TESTIMONIALS

"When I started this welding company in 1993 there was just myself and one employee. Now we have about ten employees. This is all related to the commitment of Prince Edward Island Business Development. They have helped us grow into the company we are now. They helped us with capital assets in the purchases of new equipment and with the expansion to our new facility. Prince Edward Island Business Development also provided us with marketing assistance.

Scott Hickey

Summerside Industrial Fabricators

"Prince Edward Island Business Development is extremely responsive to BioVectra as a business and we have developed a very close working relationship. We have had their support in conducting market research into new business arenas. They have been key to enhancing the rate of growth we can look at realistically achieving. Its staff provides us with ongoing information in regards to industry events, market research, available resources and financial support."

Heather Stewart

Bio Vectra Diagnostic Chemicals

"Prince Edward Island Business Development helped defer the costs of purchasing the expensive, high-quality equipment we needed to operate our business. In addition to financial support programs, Prince Edward Island Business Development has a staff of highly qualified business professionals who provide free business counselling services. If we have questions or want to attend a trade show, they help us. They have been there mainly as a financial guide, but they also have an understanding of our business. Our business is in a steady state of growth since we began working with Prince Edward Island Business Development."

Troy Sentner

Prism Digital Imaging

"Prince Edward Island Business Development actually would have to take full honors for attracting Fortius to Prince Edward Island. We liked the package presented to us. Every other option we looked at resulted in the dilution of the company. Everyone wanted equity in the company and we would have had to sell pieces of the company off to get into a place like this. Here, money was loaned to us at a low interest rate which allowed us to retain sole possession of the business and that was absolutely critical to us."

Alan Andreason

Fortius Canada Inc.

"Prince Edward Island Business Development is really dedicated to helping small businesses grow. At first our shop was in the Summerside Industrial Park, they provided a rent-free incentive for the first three years while we got off the ground. They also assisted us in our move to our new Borden-Carleton location through equity financing from the province. We've also taken advantage of their marketing support program. We have been in business for twelve years and the provincial government has been there for us and helped us every step of the way."

Jeannette Arsenault

Cavendish Figurines Limited

"The province and Humpty Dumpty Snack Foods have always had a great working relationship. Without the support of the province and Prince Edward Island Business Development, it's doubtful that we would have located here at all."

Ivan Sheenan

Humpty Dumpty Snack Foods

Approved Financial Incentives to Establish or Expand

ISLAND BUSINESSES AND DEVELOPMENTAL ORGANIZATIONS

In Fiscal Year Ended March 31, 2002

ECONOMIC SECTOR	2002		2001	
	No.	Amount	No.	Amount
Aerospace	13	3,803,018	14	14,449,836
Biotechnology & Pharmaceuticals	22	1,151,059	10	242,239
Craft & Giftware	79	704,105	59	746,770
Cultural Industries	6	25,883	3	45,478
Food - Agriculture	85	1,735,562	104	2,090,331
Food - Fisheries	44	8,465,539	67	6,726,791
General	76	1,440,781	71	1,044,989
Service	178	2,035,025	229	4,718,891
Film	3	282,283	18	1,267,131
Information Technology & Communications	69	908,064	107	4,613,563
Manufacturing	301	4,431,923	292	9,256,366
Tourism	44	479,344	45	2,223,123
	920	25,462,586	1,019	47,425,508

TYPE OF ASSISTANCE

	No.	Amount	No.	Amount
Industrial Mall	9	115,436	14	187,677
Rental Incentive	6	151,490	15	269,270
E-Commerce	1	715	16	238,516
Equity Investors Incentive	12	475,900	17	958,340
Enterprise Development Fund/Enterprise Assistance	113	2,694,912	76	1,590,343
Professional Services	111	52,010	130	58,775
Small Business Employee Support	283	1,257,482	265	1,073,980
New Entrepreneur Loan*	45	933,975	60	1,174,917
Venture Capital Loan Program**	0	0	7	275,000
Low Interest Loan Program***	28	581,648	35	1,684,811
Loan	30	2,999,266	34	8,503,669
Loan Guarantee	9	7,363,500	11	4,856,000
Capital/Micro Business Assistance	62	571,390	72	696,181
Marketing & Trade Assistance	165	2,174,989	173	1,358,330
Infrastructure Fund/Sectorial Program	25	5,800,605	73	16,185,609
Winter Craft Production Financing	19	147,292	15	111,191
Small Business Equity Investments	0	0	1	37,500
Tax Incentives - Slemon Park	2	141,976	5	8,165,399
	920	25,462,586	1,019	47,425,508

* Repayable loans through participating financial institutions. Interest free for first year only.

** Venture Capital loans of up to \$100,000 with interest only payable in the first year following which the investment is amortized over the balance of the approved term in regularly scheduled payments of interest and principal. After the retirement of the investment, PEIBD requires the take out of the common share equity position.

*** Low Interest loans for which PEIBD pays an annual interest rebate for up to five years applied against term debt held by the PEI Lending Agency.

Consolidated Financial Statements

March 31, 2002

May 29, 2002

Auditors' Report

To the Minister of Development and Technology

We have audited the consolidated balance sheet of **Prince Edward Island Business Development Inc.** as at March 31, 2002 and the consolidated statements of revenues and expenditures, deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

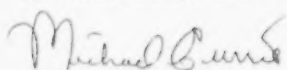
Arsenault Best Cameron Ellis
Chartered Accountants

Consolidated Balance Sheet

As at March 31, 2002

	2002 \$	2001 \$
ASSETS		
Current assets		
Cash and short-term investments (note 3)	1,534,949	1,819,226
Accounts receivable (notes 4 and 17)	3,091,313	3,534,849
Grant receivable	587,000	420
Current portion of loans receivable	1,819,836	5,000,299
Prepaid expenses	19,190	10,804
Inventory (note 4)	416,649	1,453,462
Work in progress	-	49,700
Due from the Province of Prince Edward Island - current operations (note 6)	-	1,627,711
	7,468,937	13,496,471
Due from the Province of Prince Edward Island - allowance for possible losses (note 6)	12,381,324	9,944,712
Investment in non-marketable securities (note 7)	5,520,526	9,083,870
Deferred development costs	-	206,945
Loans receivable, less current portion (note 5)	3,718,786	5,490,000
Property holdings (note 8)	7,375,044	1,521,587
Capital assets (notes 9 and 17)	21,873,607	12,461,487
Funds held in trust (notes 3, 10 and 17)	11,575,901	10,828,020
Net investment in leases (note 11)	1,007,315	1,007,315
Deferred costs	-	58,939
Assets under capital lease	4,575,315	1,478,814
	75,496,755	65,578,160
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (notes 14 and 17)	17,481,909	20,895,110
Deferred revenue	27,901	10,012
Progress billings in excess of work-in-progress	970	-
Current portion of notes payable and long-term debt	5,246,666	9,188,131
Due to the Province of Prince Edward Island - current operations (note 6)	3,287,612	-
	26,045,058	30,093,253
Funds held in trust (notes 10 and 17)	11,575,901	10,828,020
Notes payable and long-term debt, less current portion (note 12)	20,082,790	11,001,956
Deferred credits (notes 13 and 17)	16,787,942	12,010,205
	74,491,691	63,933,434
Contingent liabilities (note 14)		
SHAREHOLDERS' EQUITY		
Contributed surplus (note 17)	1,786,248	1,786,248
Deficit	(781,184)	(141,522)
	1,005,064	1,644,726
	75,496,755	65,578,160

Approved by the Corporation

 Minister

Consolidated Statement of Deficit

For the year ended March 31, 2002

	2002 \$	2001 \$
Deficit - Beginning of year	(141,522)	(293,934)
Excess revenue (expenditures) for the year	(639,662)	152,442
	(781,184)	(141,492)
Excess revenue repayable to Province of Prince Edward Island (note 6)	-	(30)
Deficit - End of year	(781,184)	(141,522)

Consolidated Statement of Revenues and Expenditures

For the year ended March 31, 2002

	2002 \$	2001 \$
REVENUE		
Grant - Province of P.E.I. (note 17)	28,704,100	43,819,500
Investment operations	727,888	694,549
Interest from deposits	30,859	121,797
Property operations	1,329,763	1,505,180
Miscellaneous	138,514	9,283
Project revenues	2,749,583	3,120,452
Retail operations (Schedule)	248,875	248,422
	<u>33,929,582</u>	<u>49,519,183</u>
EXPENDITURES		
Corporate management	2,075,353	1,958,732
Corporate services	1,464,986	1,750,913
New business development activities	360,520	482,671
Marketing services	292,813	150,347
Client services	577,401	477,262
Trade development activities	309,924	268,741
Administration	590,761	542,489
Investment operations	6,929,898	7,819,577
Programs	15,407,909	29,107,523
Project costs	1,657,311	2,300,684
Business expansion activities	263,052	197,495
Film and new media	152,177	98,775
Community information technology	190,094	126,570
Labour force	81,880	69,537
Special projects	189,372	58,675
Charlottetown Civic Centre Inc.	87,000	95,000
Development organizations	3,414,162	3,362,052
Retail operations (Schedule)	96,186	90,052
Amortization - property holdings, capital assets and deferred costs	2,060,847	1,966,733
Amortization - deferred credits	(1,632,402)	(1,357,087)
	<u>34,569,244</u>	<u>49,366,741</u>
EXCESS REVENUE (EXPENDITURES) FOR THE YEAR	<u>(639,662)</u>	<u>152,442</u>

Consolidated Statement of Cash Flows

For the year ended March 31, 2002

	2002 \$	2001 \$
CASH PROVIDED BY (USED IN)		
Operating activities		
Excess revenue (expenditures) for the year	(639,662)	152,442
Items not affecting cash		
Amortization - deferred credits	(1,632,402)	(1,557,087)
Amortization - property holdings, capital assets and deferred costs	2,060,847	1,966,733
Gain on disposal of property holdings	(27,600)	(194,369)
Increase in due from the Province of Prince Edward Island - allowance for possible losses	(2,436,612)	(6,450,277)
Provision for possible losses - subsidiaries	30,000	-
	(2,645,429)	(6,082,558)
Net change in non-cash working capital items		
Decrease (increase) in accounts receivable - net	443,536	(2,012,498)
Decrease (increase) in grant receivable	(586,580)	50,680
Increase in prepaid expenses	(8,386)	(8,846)
Decrease (increase) in inventory	1,036,813	(1,054,451)
Decrease (increase) in work-in-progress	49,700	(36,160)
Decrease in due from the Province of P.E.I. - current operations	4,915,323	3,041,569
Increase (decrease) in accounts payable and accrued liabilities	(3,413,201)	7,350,303
Increase in deferred revenue	17,889	230
Increase in progress billings in excess of work in progress	970	-
	(189,365)	1,248,269
Financing activities		
Decrease in demand loans	-	(2,570,000)
Increase in deferred credits	6,410,139	3,225,000
Net change in funds held in trust	747,881	(5,508,375)
Increase in notes payable and long-term debt (net)	5,139,369	5,235,547
Increase in net investment in leases	-	6
	12,297,389	382,178
Investing activities		
Proceeds on disposal of deferred development costs	206,945	-
Purchase of capital assets	(11,240,235)	(804,108)
Additions to and purchases of property holdings	(6,185,215)	(889,977)
Reductions of and proceeds on disposal of property holdings	185,565	2,093,451
Decrease (increase) in investment in non-marketable securities	3,563,344	(1,876,857)
Decrease (increase) in loans receivable (net)	4,951,677	(5,553,733)
Increase in deferred costs	-	(58,532)
Increase in assets under capital lease	(3,096,501)	(1,478,814)
	(11,614,420)	(8,568,570)
Increase (decrease) in cash and short-term investments and funds held in trust	463,604	(6,938,123)
Cash and short-term investments and funds held in trust - Beginning of year	12,647,246	19,585,369
Cash and short-term investments and funds held in trust - End of year	13,110,850	12,647,246

Notes to Consolidated Financial Statements

For the year ended March 31, 2002

1. Status Of The Corporation

Prince Edward Island Business Development Inc. is a Crown Corporation incorporated under the Prince Edward Island Business Development Inc. Act (formerly Enterprise P.E.I. Act). Its financial results are included in the public accounts of the Province of Prince Edward Island.

2. Summary Of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

a) General

These consolidated financial statements include the accounts of the wholly-owned subsidiaries, E.T.C. Enterprises Limited, Environmental Industrial Services Inc., Corporate Services Ltd., Souris Food Park Development Corporation, Gateway Village Development Inc., Solanum - P.E.I., A Canadian Potato Systems Company Inc., Island Products Holding Inc. and Technology Prince Edward Island Inc. all having March 31, 2002 year ends.

b) Inventory

Inventory is valued at the lower of cost, determined on the first-in, first-out basis, and net realizable value.

c) Due From The Province Of Prince Edward Island

i) Current operations

Excess revenue for the 2001 year for the parent company, Prince Edward Island Business Development Inc., is recorded as an amount due to the Province of Prince Edward Island. The excess expenditures for the current year, for the parent company, is recorded as a deficit.

Operating grant - Province of Prince Edward Island is grants from the Province in excess of cash expenditures for the year.

ii) Allowance for possible losses

The annual funded allowance for possible losses (expense or recovery) is recorded as an amount "Due from the Province of Prince Edward Island - Allowance for Possible Losses". The "Due from the Province of Prince Edward Island - Allowance for Possible Losses" is reduced when a write-off is recognized by both Prince Edward Island Business Development Inc. and the Province, with notes payable reduced correspondingly. The allowance for possible losses is also reduced by any payment received from the Province on the allowance for possible losses for guarantees. During the year, Prince Edward Island Business Development Inc. recorded an allowance of \$6,001,467 (2001 - \$6,450,277) of which \$5,439,412 (2001 - \$6,450,277) is due from the Province of Prince Edward Island.

d) Allowance For Possible Losses

An allowance is maintained which is considered adequate to absorb all credit and investment related losses and off-balance sheet items including guarantees. The allowance is deducted from the applicable asset on the balance sheet, except for guarantees. The allowance for guarantees is included in accounts payable.

The allowance consists of specific and general provisions.

Specific provisions include the accumulated allowances for losses on particular assets required to reduce the book values to estimated realizable amounts. Specific provisions total \$11,288,379 (2001 - \$5,845,112). The accumulated allowances for losses on specific off-balance sheet items totalling \$1,585,000 (2001 - \$4,062,000) are included in the accounts payable and accrued liabilities.

The company does not accrue interest on a loan receivable once a specific provision has been recorded against the loan.

The corporation reviews its investments and advances, leased property and property holdings and guarantees on an ongoing basis to assess whether an allowance or write-off is required.

A variety of methods are used to determine the amount expected to be recovered from investments and advances to private companies and property holdings, including estimated future cash flows and the estimated fair value of the underlying security and value of any collateral security taken.

A general provision of \$340,000 (2001 - \$337,600) includes accumulated allowances for losses which are prudential in nature and cannot be specifically identified. The general provision is based on past performance of similar loans, the level of the specific provision, management's judgement, the economic climate and the maturity and financial strength of the investee.

e) Investment In Non-Marketable Securities

Investment in and advances to private companies made under the former Small Business Equity Program are recorded on the balance sheet at one-half of cost, except for two preferred share investments, less an allowance for possible losses. The remaining one-half of these Small Business Equity Program investments are accounted for as a new business development activity expense on the statement of revenue and expenditures in the year the investments were made. Any recovery exceeding the balance in share investment is taken into revenue when received.

The two investments in preferred shares of private companies are either common shares or non-redeemable preferred shares and are being carried at the lower of cost and estimated realizable value.

Investments under the Venture Capital Equity Program are recorded at cost less an allowance for possible losses.

Advances - Venture Capital Debt Program are recorded at cost, less an allowance for possible losses.

Investments in private companies and Advances - Venture Capital Debt program are written down or an allowance is established to reflect estimated realizable value when an impairment in their carrying value becomes evident. Write downs are included in new business development activities expense.

It is not practical within constraints of timeliness and cost to determine the fair value of the investment in private companies as these investments are in closely held private companies that have no organized financial market. The estimated realizable value of these investments and advances is based on expected future cash flows.

f) Capital Assets And Amortization

i) Property holdings

Property holdings are reported at the lower of cost, net of government grants, and estimated realizable value.

Office furniture and equipment and computer equipment are fully expensed in the year of acquisition, except for E.T.C. Enterprises Limited and Atlantic Technology Centre Inc., a subsidiary of Technology Prince Edward Island Inc., which recorded these items as a capital asset at cost. The amount expended during the year ended March 31, 2002 was \$161,642 (2001 - \$113,750). Proceeds on the sale of industrial sites are recorded as a reduction in the carrying value of the asset. Buildings held for resale and industrial malls are amortized using the straight-line method at the annual rates of 7% and 4%.

Land improvements and buildings in Prince Edward Island Business Development Inc. are amortized using the straight-line method at the rates of 10% and 4% respectively.

Assets under construction are recorded at cost and will be amortized upon completion.

ii) Capital assets - property for development

Property for development is recorded at cost and will be transferred to a capital asset when the property has been developed. Soft costs related to a property for development will be capitalized and amortized over the estimated life of the project commencing upon completion of the development of the property.

iii) Capital assets - Technology PEI

Design and pre-construction costs incurred by Atlantic Technology Centre Inc. associated with the building are recorded as building soft costs. These costs will be capitalized as part of the cost of the building upon completion of construction. During the year, Atlantic Technology Centre Inc. capitalized \$9,146 (2001 - nil) in interest as building soft costs.

No amortization has been recorded in the period on these capital assets. Assets are under construction and the company is in a pre-operating period prior to the commencement of commercial activities.

Amortization of costs related to the building will commence upon completion of construction and amortization of computer hardware and software will commence when the company commences commercial activities.

Notes to Consolidated Financial Statements

For the year ended March 31, 2002

iv) Amortization

Capital assets are amortized using the straight-line method at annual rates ranging from 5% to 50% as indicated in note 10.

A full year's amortization is recorded in the year of acquisition.

v) Estimated realizable value

Estimated realizable value for industrial sites is the expected proceeds on resale and for industrial malls it is the property tax assessed value.

Estimated realizable value for land, buildings and equipment held for resale under lease purchase options is its property tax assessed value.

The reduction from cost to estimated realizable value is recorded as a provision for possible losses.

g) Net Investment In Leases

The company's subsidiaries accumulate costs of constructing assets, that are to be classified as capital leases, as assets under capital lease, and the related grants as deferred credits until the lease term begins. When the lease term begins, the assets under capital lease and deferred credits are removed from the balance sheet and a net investment in leases is recorded. The net investment in leases represents the minimum lease payments receivable over the term of the lease plus the purchase option.

h) Programs Assistance Payable

Provincially funded non-cost shared program assistance is expensed and included in accrued liabilities when approved and accepted. Federal-Provincial cost shared programs are expensed when the funds are disbursed.

The P.E.I. Food Products Development Fund is a provincially-funded research assistance program administered by F.I.C. Enterprises Limited. Grants under the program are included in income and a corresponding expense and accrued liability is recorded when the grant is received. The accrued liability is reduced when contributions are made to projects.

i) Federal Programs And Grants**Federal programs**

Prince Edward Island Business Development Inc. administers programs on behalf of the Federal Government. Any difference between federal funding received and program expenditures is recorded as an accounts receivable or accounts payable. During the year, Prince Edward Island Business Development Inc. disbursed \$4,554,807 (2001 - \$1,285,973) under the programs. Included in accounts receivable is \$567,791 (2001 - \$1,006,976) due from the federal government relating to the 2002 programs.

Included in the program disbursements is \$278,432 (2001 - \$298,590) in costs related to salary costs of Prince Edward Island Business Development Inc. employees who deliver and administer these programs. This cost recovery has been recorded as a reduction in Prince Edward Island Business Development Inc. salary costs.

Federal grants

Federal government grants received relating to operating or program expenditures are recorded as a reduction in the related expenditures in the period received. During the year, the company has recorded \$644,777 (2001 - \$495,626) as a reduction of program expenditures for federal grants received.

j) Pension Liability

Most of the corporation's staff are members of the Province of Prince Edward Island pension plan. Pension obligations are liabilities of the Province and not the corporation and no liability for these costs has been accrued by the corporation.

k) Deferred Credits

Prince Edward Island Business Development Inc. subsidiaries have adopted the policy that contributions received towards the acquisition of capital assets will be recorded as deferred credits and amortized to earnings on the same basis as the related capital assets are amortized.

l) Revenue Recognition

Prince Edward Island Business Development Inc. subsidiaries follow the percentage-of-completion method of accounting for revenue and

expenditures on project contracts. The percentage-of-completion method records the organization's revenue based on the expenditures incurred and work completed on each contract in progress as at the balance sheet date.

Work in progress in excess of progress billings is recorded at year end to appropriately recognize revenue under the percentage-of-completion basis of accounting when work in progress is in excess of actual billings generated. When progress billings are in excess of the related work in progress at year end the excess is recorded as progress billings in excess of work in progress.

Revenue from product royalties is recorded as received.

m) Interest Expense

Interest paid by Prince Edward Island Business Development Inc. is included as part of the program expense to which it relates. Included in expenses is interest expense for 2002 as follows:

	2002 \$	2001 \$
Interest on short-term borrowings	342,743	345,021
Interest on long-term debt	820,192	939,373
	<u>1,162,935</u>	<u>1,284,394</u>

n) Management Estimates

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period.

o) Estimated Realizable Value Of Financial Instruments

Estimated realizable value (fair value) is subjective in nature requiring a variety of valuation techniques and assumptions. The company's financial instruments are not exchangeable and it is difficult, and often not practical, to determine their estimated realizable value. Where it is possible to estimate realizable value, the company assumes that it will not sell the assets or the liabilities, taking into account only changes in credit risk as credit risk is the main cause of change in the estimated realizable value of the company's financial instruments. Credit risk is defined as the risk that the note holder will fail to discharge an obligation in whole or in part resulting in a financial loss to this company.

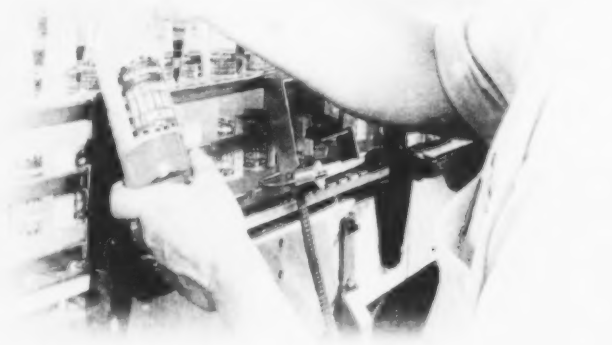
3. Market Value Of Investments

Cash and short-term investments and funds held in trust of \$13,110,850 (2001 - \$12,647,246) consist of portfolio investments and cash having a quoted market value of \$13,066,669 (2001 - \$12,630,291). The majority of marketable securities have a fixed value and it is expected that most securities will be held until they mature.

4. Accounts Receivable And Inventory

The accounts receivable have been reduced by an allowance for possible losses of \$182,167 (2001 - \$192,446).

Inventory has been reduced by an allowance for possible losses of nil (2001 - \$210,000).



Notes to Consolidated Financial Statements

For the year ended March 31, 2002

5. Loans Receivable

	2002		2001	
	Total \$	Impaired Loans included in Total \$	Allowance for possible losses Specific \$	Net \$
Working capital and demand loans	2,307,238	1,012,149	1,520,403	786,835
Craft loans	148,748	-	20,235	128,513
Long-term loans				
Manufacturing and processing	6,438,172	3,345,644	3,018,817	3,419,355
Tourism	700,327	-	100,000	600,327
Small business	400,636	-	129,500	271,136
Other	261,956	-	-	261,956
Technology	100,500	60,000	30,000	70,500
	7,901,591	3,405,644	3,278,317	4,623,274
Total Loans Receivable	10,357,377	4,417,793	4,818,955	5,538,622
Less: Loans due within the next fiscal year	6,232,231	4,347,793	4,412,395	1,819,836
	4,125,146	70,000	406,560	3,718,786

The working capital and demand loans and craft loans are due on demand with various interest rates due within the next fiscal year.

The long-term loans receivable have various repayment terms and interest rates ranging from 4% to 9.25%.

6. Due (To) From The Province of Prince Edward Island

	2002 \$	2001 \$
Current operations		
Excess revenue for the year (non-consolidated)	-	(30)
repayable to the Province of Prince Edward Island	(3,287,612)	1,627,741
Operating grant - Province of Prince Edward Island	(3,287,612)	1,627,711
Allowance for possible losses		
Balance - beginning of year	9,944,712	3,494,435
Current year's provision for possible losses expense	6,001,467	6,450,277
Advance on provision for possible losses from the Province of Prince Edward Island	(3,002,800)	-
Current year's provision for possible losses recorded as a deficit	(562,055)	-
Balance - end of year	12,381,324	9,944,712

Notes to Consolidated Financial Statements

For the year ended March 31, 2002

7. Investment In Non-Marketable Securities

	2002 \$	2001 \$
Investment in private companies		
Small business equity program investments	6,576,732	3,096,732
Venture capital equity program investments	495,189	362,000
	7,071,921	3,458,732
Less: Allowance for possible losses	5,416,030	1,876,030
	1,655,891	1,582,702
Investment in preferred shares of private corporations	3,494,812	7,114,812
Royalties receivable from private corporation	31,618	-
Advances - Venture Capital Debt Program		
Advances to private companies - bearing interest at variable rates, repayable on performance	805,185	883,356
Less: Allowance for possible losses	466,980	497,000
	338,205	386,356
	<u>5,520,526</u>	<u>9,083,870</u>

Of the preferred shares in private corporations, \$50,000 are to be redeemed by the issuer at the rate of \$10,000 per year, with the first redemption to occur in the 2008 year.

The royalties receivable are non-interest bearing and are to be recoverable in the amount of 1.25% of gross income received by the purchaser for the direct sales of the products sold or 12.5% of net licensing fees received by the purchaser for licensing agreements, with one-half of these royalties being payable to the original patent holders by E.T.C. Enterprises Limited under an assignment. During the year, E.T.C. Enterprises Limited received net royalties of \$5,327 (2001 - nil) which have been applied against the receivable balance.

8. Property Holdings

	2002		2001	
	Cost \$	Accumulated amortization and grants \$	Net \$	Net \$
Land	981,500	-	981,500	-
Land improvements	44,766	4,477	40,289	-
Building	1,611,451	64,458	1,546,993	-
Industrial sites	3,267,857	2,938,096	329,761	372,781
Industrial malls	2,806,046	2,806,046	-	-
	<u>8,711,620</u>	<u>5,813,077</u>	<u>2,898,543</u>	<u>372,781</u>
Asset under construction			2,789,050	-
Land, buildings and equipment held for resale or under lease purchase options			2,241,508	1,747,711
			7,929,101	2,120,492
Less: Allowance for possible losses - land, buildings and equipment held for resale			554,057	598,905
			<u>7,375,044</u>	<u>1,521,587</u>

Notes to Consolidated Financial Statements

For the year ended March 31, 2002

9. Capital Assets

	Amortization rate %	Cost \$	Accumulated amortization \$	2002 Net \$	2001 Net \$
F.T.C. Enterprises Limited					
Building	5 SL	2,544,514	1,568,736	975,778	1,083,449
Pilot plant and laboratory equipment	10 - 20 SL	1,780,040	1,447,895	332,145	208,068
Laboratory supplies	50 SL	120,524	120,524	-	-
Computer and audio visual equipment	33 1/3 SL	463,824	443,710	20,114	38,926
Office furniture and equipment	20 SL	172,282	154,150	18,132	14,686
		5,081,184	3,735,015	1,346,169	1,345,129
Souris Food Park Development Corporation					
Land		242,898	-	242,898	242,898
Land improvements	8 SL	2,511,881	1,004,754	1,507,127	1,708,078
Waste treatment - soft costs	8 SL	91,764	29,362	62,402	69,742
- equipment	20 SL	2,909,310	2,327,448	581,862	1,163,724
Soft costs	8 SL	1,934,724	773,891	1,160,833	1,315,612
Equipment	20 SL	145,517	145,517	-	29,103
		7,836,094	4,280,972	3,555,122	4,529,157
Gateway Village Development Inc.					
Land		1	-	1	1
Building - Phase I	5 SL	3,095,313	748,034	2,347,279	2,502,044
- Phase II	5 SL	1,656,309	331,261	1,325,048	1,407,863
Land improvements - Phase I	10 SL	816,743	394,760	421,983	503,657
- Phase II	10 SL	357,244	142,285	214,959	250,683
Interpretative Centre	20 SL	1,078,080	1,038,808	39,272	254,888
Retail fixtures - Phase I	20 SL	78,794	73,074	5,720	20,344
- Phase II	20 SL	95,970	74,414	21,556	40,750
Signage	20 SL	12,798	7,679	5,119	7,679
		7,191,252	2,810,315	4,380,937	4,987,909
Environmental Industrial Services Inc.					
Property for development - land		929,085	-	929,085	929,085
Soft costs		86,307	-	86,307	86,307
		1,015,392	-	1,015,392	1,015,392
Technology Prince Edward Island Inc.					
Land		1,194,453	-	1,194,453	-
Computer hardware and software		9,592	-	9,592	9,274
Building under construction		9,716,734	-	9,716,734	-
Building soft costs		655,208	-	655,208	574,626
		11,575,987	-	11,575,987	583,900
		32,699,909	10,826,302	21,873,607	12,461,487

SL - Straight Line

Notes to Consolidated Financial Statements

For the year ended March 31, 2002

10. Funds Held In Trust

Under the terms of an agreement between Corporate Services Ltd., Prince Edward Island Government Economic Development Fund (No. II) Inc., (Island Fund II), Prince Edward Island Government Economic Development Fund (No. III) Inc., (Island Fund III), Prince Edward Island Government Economic Development Fund (No. IV) Inc., (Island Fund IV), and Prince Edward Island Government Economic Development Fund (No. V) Inc., (Island Fund V), Corporate Services Ltd. is to act as the Escrow Agent for investors of a \$30,000,000 venture capital fund offering for each of the funds, except for Island Fund IV which has a \$35,000,000 venture capital fund offering.

Corporate Services Ltd. receives the subscription forms from potential investors and holds the funds in trust until the commencement date. The commencement date is to be established within 100 days of receipt of twelve subscriptions. On the commencement date, the Escrow Agent shall:

- * Advance to Island Fund II, Island Fund III, Island Fund IV or Island Fund V
- * 70% of subscription proceeds to be reinvested; and
- * 10% of subscription proceeds to be used to cover offering and operating costs;

Interest earned on the account while the funds are in escrow is the property of the specific fund.

- * Establish a repayment account to retain on deposit the remaining 20% of the subscription proceeds to be invested in liquid, low-risk investment account, for the purpose of refunding rejected investors. Interest earned on the repayment account accrue to the benefit of the specific project, Island Investment Development Inc., or Island Fund IV or V as applicable, and not Corporate Services Ltd.

11. Net Investment In Leases

The net investment in leases represents the minimum lease payments over the term of the lease plus purchase options receivable. The net investment in leases consists of the following:

Environmental Industrial Services Inc.

Environmental Industrial Services Inc. has entered into agreements to lease its three properties on terms that require these leases to be accounted for as capital leases. In accounting for the capital leases, the capital assets and related deferred credits have been removed and the lease payments receivable recorded as net investment in leases. The net investment in leases consists of the following:

- * McCain Foods Limited - 10 year lease term for the period from February 20, 1991 to December 31, 2000, with the lessee paying all operating costs, an annual lease payment of nil and a purchase option of \$20.
 - * Cavendish Farms - 8-year lease term for the period from January 1, 1994 to December 31, 2001, with the lessee paying all operating costs, an annual lease payment of nil and a purchase option of \$10.
- Both leases have the option to be extended an additional 10 years at the expiration of the lease term at the option of the lessee.
- * Small Fry - 9-year lease term for the period from December 22, 1996 to December 31, 2005, with the lessee paying all operating costs, an annual lease payment of nil and a purchase option of \$7,260.

Souris Food Park Development Corporation

Souris Food Park Development Corporation has entered an agreement to lease its property on terms that require the lease to be accounted for as capital leases. When the company entered into the capital lease for capital property that it owned, the capital assets and related deferred credits were removed and the company recorded a net investment in lease.

The net investment in lease represents the minimum lease payments over the term of the lease plus purchase options receivable. The net investment in lease consists of the following:

- * AgraWest Investments Ltd. - 5-year lease term for the period from June 16, 1997 to June 15, 2002, \$5 per year with a purchase option of \$1,000,000

12. Notes Payable And Long-Term Debt

	2002	2001
	\$	\$
Notes payable - short-term promissory notes	2,600,000	7,082,500
- long-term promissory notes	19,409,456	12,207,587
5.65% Bank of Nova Scotia loan, payable \$18,106 monthly including principal and interest, maturing March 20, 2007	2,600,000	-
ACOA non-interest bearing loan due February 1, 2006, repayable in annual instalments of \$180,000 February 1, 2002 through 2006	720,000	900,000
	25,329,456	20,190,087
Less: Current portion	5,246,666	9,188,131
	20,082,790	11,001,956

Short-term promissory notes are issued to the Province of Prince Edward Island with interest set monthly based on the Province's short-term lending rate in existence at the first day of the month. These notes are renewed on an ongoing basis with interest payable monthly.

The notes payable - long-term are issued to the Province of Prince Edward Island and have various repayment terms and interest rates ranging from 5.53% to 8.50%.

The notes payable and long-term debt are unsecured.

The aggregate amount of principal payments required in each of the next five years to meet retirement provisions is as follows:

		\$
Year ending March 31	2003	5,246,666
	2004	2,815,333
	2005	2,995,912
	2006	3,189,265
	2007	2,086,636

Notes to Consolidated Financial Statements

For the year ended March 31, 2002

13. Deferred Credits

	Cost	Accumulated amortization	2002 Net	2001 Net
	\$	\$	\$	\$
F.T.C. Enterprises Limited				
Building	2,368,875	1,484,757	884,118	983,007
Pilot plant and laboratory equipment	1,371,699	1,086,919	284,780	-
Computer and audio visual equipment	68,342	48,228	20,114	-
Office furniture and equipment	67,886	56,707	11,179	-
	3,876,802	2,676,611	1,200,191	983,007
Souris Food Park Development Corporation				
Federal	7,212,126	3,939,916	3,272,210	4,168,685
Provincial	623,973	341,061	282,912	360,472
	7,836,099	4,280,977	3,555,122	4,529,157
Gateway Village Development Inc.				
Building - Phase I	3,095,313	748,036	2,347,277	2,502,043
Land improvements	816,743	394,758	421,985	503,659
Interpretative Centre	1,072,001	1,036,267	35,734	250,134
Retail fixtures	73,735	71,277	2,458	17,205
	5,057,792	2,250,338	2,807,454	3,273,041
Environmental Industrial Services Inc.				
Capital lease - construction in progress	4,025,175	-	4,025,175	2,500,000
Technology Prince Edward Island Inc.				
Building - under construction	5,200,000	-	5,200,000	725,000
	25,995,868	9,207,926	16,787,942	12,010,205

Notes to Consolidated Financial Statements

For the year ended March 31, 2002

14. Contingent Liabilities

A) As of March 31, 2002, Prince Edward Island Business Development Inc. was contingently liable under loan guarantees in the amount of \$16,845,573 (2001 - \$20,863,951) for which Prince Edward Island Business Development Inc. has included \$1,825,000 (2001 - \$4,362,000) in its allowance for possible losses. This portion of the allowance for possible losses is recorded as an account payable. Included in the guarantees is a guarantee of an operating line of credit in the amount of \$763,674 (2001 - \$2,001,055) of a subsidiary, Island Product Holdings Inc.

B) E.T.C. Enterprises Limited has guaranteed loans totalling \$25,000 of one of the private corporations in which it has invested.

C) A letter of claim has been filed against E.T.C. Enterprises Limited seeking unspecified damages. Management believes the claim is completely without foundation, and that the liability, if any, is unlikely at this time, and accordingly, no provision has been recorded in the accounts for future possible losses.

15. Commitments

A) E.T.C. Enterprises Limited has entered into a twenty-five year lease expiring November 2013 with the University of Prince Edward Island for the land upon which the corporation constructed its facilities. The lease cost is \$1 per year and is renewable for a further term of twenty-five years for the same annual consideration.

B) Under the terms of a construction contract, Atlantic Technology Centre Inc., a subsidiary of Technology Prince Edward Island Inc. has a commitment to complete the construction of the Atlantic Technology Centre "smart facility" in the 2003 fiscal year. The total of the contract is \$16,752,534 of which \$8,739,823 has been completed at March 31, 2002.

C) During the year, Atlantic Technology Centre Inc., entered into a credit agreement with a commercial lender to obtain a mortgage of \$12.1 million to be drawn down August 30, 2002. The mortgage is to bear interest at 6.62% and will be due August 30, 2017, repayable in monthly instalments of \$40,333 plus interest. The mortgage will be guaranteed by the Province of Prince Edward Island.

16. Operating Agreements

Environmental Industrial Services Inc. has agreements with McCain Foods Limited, Irving Pulp & Paper Limited and Small Fry Snack Foods Inc. to operate wastewater treatment facilities to extend to December 2000, 2001 and 2005, respectively, and stipulate that the companies shall pay Environmental Industrial Services Inc. a user fee equal to the operating costs of the facilities excluding interest and amortization charges. The companies pay these operating costs directly and accordingly a user fee has not been charged by Environmental Industrial Services Inc.

Environmental Industrial Services Inc. is responsible for operating the Brudenell and Crowbush Water and Sewer Utilities on behalf of the Province of Prince Edward Island. Environmental Industrial Services Inc. pays the operating costs of the Utility and recovers these costs from the users of the utility on a pro-rata basis based on usage.

During the year, the company recovered \$6,737 (2001 - \$5,071) in costs from related parties, Tourism PEI and Golf Links Prince Edward Island Inc. Tourism PEI is a provincial Crown Corporation and Golf Links Prince Edward Island Inc. is a subsidiary of Tourism PEI.

17. Related Party Transactions

Balance sheet

Accounts receivable

Included in accounts receivable is \$503,736 (2001 - \$561,812) due from the Province of Prince Edward Island, \$22,256 (2001 - \$23,069) due from ISA Inc., a provincial Crown Corporation and \$105,111 (2001 - \$126,901) due from related companies.

Funds held in trust

The funds held in trust are due to Island Investment Development Inc., a provincial Crown Corporation.

Accounts payable

Included in accounts payable and accrued liabilities is \$20,840 (2001 - \$4,795) payable to Province of Prince Edward Island, \$2,162,391 (2001 - \$1,603,477) due to Island Investment Development Inc., a provincial Crown Corporation, and nil (2001 - \$50,984) payable to P.E.I. Lending Agency, a provincial Crown Corporation.

Capital assets

The Province of P.E.I. transferred land to Gateway Village Development Inc. in 1997. In accordance with the terms of the transfer, the exchange and carrying amounts of the land was established as \$1.

The Department of Public Works of the Province of Prince Edward Island conveys land to the company periodically to be granted to developers under various programs. The exchange and carrying amounts of land when transferred into the company is nil.

Deferred credits

During the year, Technology Prince Edward Island Inc. received, by way of grants from Prince Edward Island Business Development Inc., and paid by way of a grant to its wholly-owned subsidiary, Atlantic Technology Centre Inc., \$275,000 (2001 - \$725,000) from the Province of Prince Edward Island in special project funding for the acquisition of capital assets. These grants have been recorded as deferred credits in the consolidated financial statements. These amounts have not been eliminated on consolidation.

During the year, Environmental Industrial Services Inc. received grants of \$735,363 (2001 - nil) and E.T.C. Enterprises Limited received grants of \$164,512 (2001 - \$204,167) from the Province of Prince Edward Island through Prince Edward Island Business Development Inc. that have been accounted for as deferred credits and included in program expenditures for the year. These amounts have not been eliminated on consolidation.

During the year, Environmental Industrial Services Inc. received a grant of \$279,812 (2001 - nil) from the Province of Prince Edward Island to fund the acquisition of assets under capital lease. This amount has been recorded as deferred credits.

Contributed surplus

Gateway Village Development Inc. and E.T.C. Enterprises Limited have received \$1,786,248 in funds from the Province of Prince Edward Island through Prince Edward Island Business Development Inc. that have been accounted for as contributed surplus. This contribution has not been eliminated on consolidation.

Notes to Consolidated Financial Statements

For the year ended March 31, 2002

Statement of revenue and expenditures

Revenue

Included in grant revenue is a grant of \$120,000 (2001 - \$120,700) paid to Solanum - PEI, A Canadian Potato Systems Company Inc. from the Province of Prince Edward Island.

Included in project recoveries revenue is a grant of \$9,500 (2001 - nil) paid to E.T.C. Enterprises Limited from the Province of Prince Edward Island.

Management fees

During the year, management fees of \$150,000 (2001 - \$150,000) were received from Island Investment Development Inc. and recorded as a reduction in administration expenditures. In addition, management fees of \$30,816 (2001 - \$23,069) were received from Innovative Solutions Agency (P.E.I.) Inc., a provincial Crown Corporation, of which \$22,256 (2001 - \$23,069) has been recorded as a reduction in corporate management expenditures and \$8,560 (2001 - nil) has been recorded as a reduction in administrative expenditures.

During the year, management fees of \$12,000 (2001 - \$13,500) were received from Prince Edward Island Energy Corporation, a provincial Crown Corporation, and have been recorded as a reduction of administrative expenditures (2001 - corporate management).

Interest expense

Included in expenditures is \$1,126,597 (2001 - \$1,137,041) in interest paid to Province of Prince Edward Island.

Other

The corporation provides office premises to a Crown Corporation of the Province of Prince Edward Island, Tourism PEI, for nil consideration.

During the year, Tourism PEI provided management services to Corporate Services Ltd. for consideration of \$5,100 (2001 - \$5,950).

The above transactions were recorded in the normal course of operations and measured on the same terms as transactions with unrelated parties.

18. Comparative figures

Certain comparative figures presented for the 2001 fiscal year have been restated to conform with the financial statement presentation adopted for the current year.

Schedule of Retail Operations

For the year ended March 31, 2002

	2002	2001
	\$	\$
Revenue		
Sales - Island Store	502,306	495,626
- Consignment sales - net	5,120	6,678
	507,426	502,304
Cost of goods sold		
Island Store	258,551	253,882
Gross margin	248,875	248,422
Expenditures		
Office supplies	2,103	1,093
Electricity, fuel, common area	2,814	2,874
Bank charges and interest	7,078	6,791
Cash overage	(1,163)	(957)
Telecommunications	1,907	2,031
Packaging	6,728	3,511
Advertising and promotion	1,632	1,442
Salaries and benefits	68,392	65,291
Travel and training	3,948	5,113
Dues and fees	779	725
Product development	250	510
Maintenance and cleaning	1,718	1,628
	96,186	90,052

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